



Agenda Date: 10/5/04
Agenda Item: 21

**State of New Jersey
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us**

ENERGY

IN THE MATTER OF THE VERIFIED PETITION OF)	DECISION AND ORDER
JERSEY CENTRAL POWER & LIGHT COMPANY)	APPROVING
FOR REVIEW AND APPROVAL OF COSTS INCURRED)	STIPULATION
FOR ENVIRONMENTAL REMEDIATION OF)	
MANUFACTURED GAS PLANT SITES PURSUANT TO)	DOCKET NO ER03121020
THE REMEDIATION ADJUSTMENT CLAUSE OF ITS)	
FILED TARIFF ("2003 ANNUAL RAC FILING"))	

(SERVICE LIST ATTACHED)

BY THE BOARD:

Background

On March 13, 2002 Jersey Central Power & Light Company ("JCP&L" or "Company") filed a petition with the Board in Docket ER02030173 for a review of the Company's manufactured gas plant ("MGP") remediation costs for the period January 1, 1996 through July 31, 2003. Following extensive discovery and both public and evidentiary hearings, Docket ER02030173 was resolved by a Stipulation of Settlement dated June 10, 2003 ("2003 RAC Stipulation"). The 2003 RAC Stipulation was approved by the Board at its July 25, 2003 Agenda meeting, which approval is reflected in the Board's Summary Order dated August 1, 2003 and its Final Order dated May 17, 2003 in Docket Nos. ER02080506, ER02080507, EO02070417, ER02030173 and ER95120633. In general, the 2003 RAC Stipulation, among other things, resolved all issues relating to JCP&L's MGP costs and related insurance recoveries for purposes of determining JCP&L's net deferred RAC balance at December 31, 2002. The Parties to the 2003 RAC Stipulation agreed: 1) that an immediate adjustment to the Company's RAC factor would not occur; 2) that the \$678,396 deferred MGP balance was to be carried forward by JCP&L without any immediate adjustment to its RAC factor, subject to a write-off of \$2,500,000 from the deferred RAC account and 3) to prospectively modify the interest calculation and change the timing and method of the interest calculation for deferred RAC balances.

Request

On December 22, 2003, the Company filed a petition with the Board for the annual review of actual costs and expenditures incurred by JCP&L relating to the environmental remediation of its former MGP sites for the period from January 1, 2003 through December 31, 2003. The petition projects the net balance of recoverable MGP costs at December 31, 2003 to be \$2,966,956, including carrying costs and the effect of the \$2.5 million write off resulting from the RAC Stipulation in Docket No. ER02030173. The purpose of this 2003 Annual Remediation

Adjustment Clause ("RAC") Filing is to provide the Board and the parties with an opportunity to conduct an annual review of the reasonableness and prudence of all actual MGP costs and expenditures incurred by JCP&L from January 1, 2003 through December 31, 2003. In light of the relatively modest size of the projected net deferred RAC account balance at December 31, 2003, JCP&L determined not to seek any adjustment to its RAC factor in this proceeding. Instead JCP&L will continue to defer net deferred RAC balance at December 31, 2003.

The Company, Staff and the Ratepayer Advocate (collectively "The Parties") agreed to a Stipulation dated as of September 10, 2004 to resolve all issues related to the determination of all amounts that were, or could have been, included in the calculation of JCP&L's deferred RAC balance through December 31, 2003. The salient points of the Stipulation are as follows:

Recoverable Costs

- (a) JCP&L's deferred RAC balance at December 31, 2003 including associated carrying costs and the \$1,125 adjustment in January 2004 to correct an error in the December 2003 interest calculation was a net un-recovered RAC balance of \$5,765,342. In accordance with generally accepted accounting principles ("GAAP") as applied by JCP&L's independent auditors, the deferred RAC balance at December 31, 2003 includes certain RAC expense accruals which may be subject to accounting adjustments in subsequent months when all vendor invoices have been received and the actual amounts thereof are finally ascertained. Although the Parties will continue to review the level of such accruals in the Company's deferred RAC accounts in future proceedings, the Parties do not object to the use of such accrual accounting procedures as required by the Company's auditors.
- (b) Following receipt of the Board's Final Order dated May 17, 2004, approving the 2003 RAC Stipulation JCP&L wrote-off the sum of two million five hundred thousand dollars (\$2,500,000) to the deferred RAC balance effective June 30, 2004, in accordance with the 2003 RAC Stipulation. As of August 1, 2004, the Company commenced the compounding of interest on the deferred RAC balance in accordance with the terms of paragraph 2(d) of the 2003 RAC Stipulation.
- (c) The Parties agree that the JCP&L deferred RAC balance at December 31, 2003, including the \$2.5 million write-off should be approved by the Board for future recovery through Rider RAC of the Company's Tariff. The Parties further agree that the foregoing net deferred RAC balance amount shall not be reflected in the Company's RAC recovery factor on June 1, 2004, but shall be further deferred and reflected in the future JCP&L RAC recovery factor to become effective on June 1, 2005, or at such later date as the Company agrees and the Board approves in a subsequent RAC proceeding.

Modifications to 2003 RAC Stipulation

- (a) The Parties agree that the 2003 RAC Stipulation be modified and revised, on a prospective basis, so that following the initial compounding of interest on August 1, 2004, interest is to be compounded as of January 1 of each year, commencing January 1, 2005, by adding the accrued interest from the prior 12-month period (or, in the case of the first such January 1 compounding, for the period from August 1, 2004, through December 31, 2004) to the principal balance on which interest is to be calculated.
- (b) The Parties also agree that the 2003 RAC Stipulation be further modified and revised prospectively, so that following the resetting of the applicable interest rate on the deferred RAC balance as of August 1, 2004, the applicable interest rate will be

reset as of January 1 of each year, commencing January 1, 2005, at a rate equal to the rate on seven-year constant maturity Treasuries as shown in the Federal Reserve Statistical Release issued on or closest to January 1 of such year, plus 60 basis points.

- (c) The Parties further agree that, the calculation by JCP&L of monthly simple interest on the deferred RAC balance at the revised interest rate specified in the 2003 RAC stipulation will commence prospectively beginning August 1, 2003, immediately upon issuance of the Board's Summary Order approving the 2003 RAC Stipulation, instead of waiting until after the Board's final Approval Order was issued and the appeal period passed.

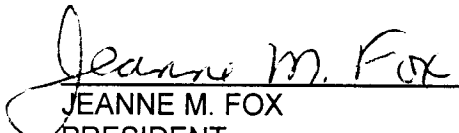
Discussion and Findings

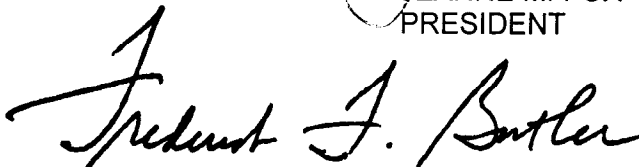
The Board has carefully reviewed the file in this proceeding and the attached Stipulation of the Parties. The Board FINDS that, subject to the terms and conditions set forth below, the Stipulation is reasonable, in the public interest, and in accordance with the law. According, subject to the terms and conditions herein, the Board HEREBY ADOPTS and HEREBY APPROVES the Stipulation as its own, as if fully set forth herein.

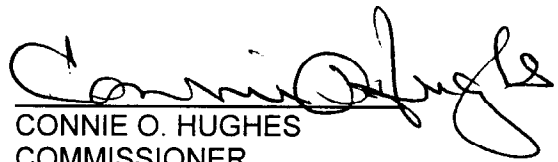
The Company's RAC costs will remain subject to on-going audit by the Board. This Decision and Order shall not preclude the Board from taking any actions deemed to be appropriate as a result of any such audit.

DATED: 10/5/04

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER

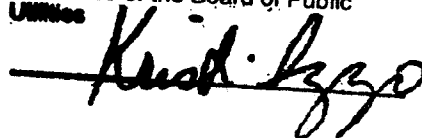

CONNIE O. HUGHES
COMMISSIONER


JACK ALTER
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



**I/M/O the Verified Petition of Jersey Central
Power & Light Company for Review & Approval
Of Costs Incurred for Environmental Remediation
Of Manufactured Gas Plant Sites Pursuant to the
Remediation Adjustment Clause of Its Filed Tariff
("2003 RAC Filing")**

BPU Docket No. ER03121020

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September 17, 2004

VIA FEDERAL EXPRESS

Kristi Izzo, Secretary
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Re: In the Matter of the Verified Petition of **Jersey Central Power & Light Company** For Review and Approval of Costs Incurred For Environmental Remediation of Manufactured Gas Plant Sites Pursuant to the Remediation Adjustment Clause of Its Filed Tariff ("**2003 Annual RAC Filing**")
BPU Docket No. ER03121020

Dear Secretary Izzo:

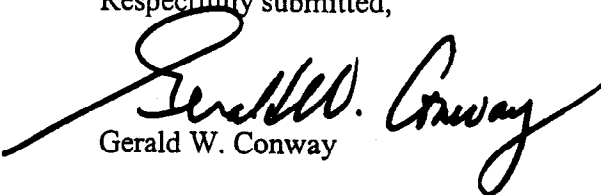
On behalf of the Petitioner, Jersey Central Power & Light Company ("JCP&L" or the "Company"), the Division of the Ratepayer Advocate (the "Ratepayer Advocate") and the Staff of the Board of Public Utilities ("Staff"; the "Board") (collectively, the "Parties"), enclosed herewith for filing, review and approval by the Board are a fully-executed original and eleven copies of the Stipulation of Settlement of Remediation Adjustment Clause (the "2004 RAC Stipulation") in the above-captioned proceeding.

The 2004 RAC Stipulation has been duly executed by the Company, the Ratepayer Advocate and Staff, and is intended to constitute a full and final resolution, upon the terms and conditions therein set forth, of all factual and legal issues pertaining to JCP&L in connection with the above-captioned proceeding. All Parties have joined in recommending that the Board issue a Final Decision and Order approving the 2004 RAC Stipulation.

Kristi Izzo, Secretary
September 17, 2004
Page 2

Accordingly, it is respectfully requested on behalf of the Parties that the Board issue a Final Decision and Order adopting and approving the 2004 RAC Stipulation in its entirety in accordance with the terms thereof.

Respectfully submitted,


Gerald W. Conway

GWC:jmk
Enclosure

cc: (via Federal Express - w/enclosure (duplicate original))
Babette Tenzer, DAG
Judith Appel, DRA
Michael J. Filippone

(via regular mail - w/enclosure (photocopy))
Service List

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2003 RAC Filing
BPU Docket No. ER03121020

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**STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

In the Matter of the Verified Petition of	:	BPU Docket No. ER03121020
Jersey Central Power & Light Company	:	
For Review and Approval of Costs Incurred	:	
For Environmental Remediation of	:	Stipulation of Settlement
Manufactured Gas Plant Sites Pursuant to the	:	of
Remediation Adjustment Clause of Its Filed	:	Remediation Adjustment Clause
Tariff ("2003 Annual RAC Filing")	:	

TO THE HONORABLE BOARD OF PUBLIC UTILITIES:

This Stipulation of Settlement of Remediation Adjustment Clause (the "2004 RAC Stipulation") is hereby made and executed as of the 10th day of September, 2004, by and among the Petitioner, Jersey Central Power & Light Company ("JCP&L" or the "Company"), the Staff of the Board of Public Utilities ("Staff"; the "Board") and the Division of the Ratepayer Advocate (the "Ratepayer Advocate") (collectively, the "Parties"), in full and final resolution, upon the terms and conditions hereinafter set forth, of all factual and legal issues pertaining to JCP&L in connection with the above-captioned proceeding.

The Parties do hereby join in recommending that the Board issue a Final Decision and Order approving the terms hereof, based upon the following stipulations:

1. Procedural History. On March 13, 2002, JCP&L filed with the Board a Verified Petition, under Docket No. ER02030173 (the "2002 RAC Filing"). The purpose of the 2002 RAC Filing was to provide the Board, its Staff and the Ratepayer Advocate with the opportunity to conduct a review of all actual and projected costs and expenditures, including related insurance recoveries, incurred and to be incurred by JCP&L relating to the environmental

remediation of its former manufactured gas plant ("MGP") sites for the period from January 1, 1996 through July 31, 2003.

2. Following extensive discovery and both public and evidentiary hearings, the 2002 RAC Filing was resolved by a Stipulation of Settlement of Remediation Adjustment Clause dated June 10, 2003 (the "2003 RAC Stipulation") by and among JCP&L, Staff and the Ratepayer Advocate. The 2003 RAC Stipulation was approved by the Board at its July 25, 2003 Agenda Meeting, which approval is reflected in both the Board's Summary Order dated August 1, 2003 (at 3), and in its Final Order dated May 17, 2004 (at 14-15), which were issued in several consolidated dockets including Docket No. ER02030173.

3. In general, the 2003 RAC Stipulation, among other things, resolved all issues relating to JCP&L's MGP costs and related insurance recoveries for the period from January 1, 1996 through December 31, 2002, for purposes of determining JCP&L's calculated net deferred RAC account balance at December 31, 2002. The 2003 RAC Stipulation determined that JCP&L had a net unrecovered deferred RAC balance of \$678,396 as of December 31, 2002, which was to be carried forward by JCP&L without any immediate adjustment to its RAC factor, subject to the agreed-upon subsequent write-off by JCP&L of \$2,500,000 in principal amount from the deferred RAC account balance. The 2003 RAC Stipulation also prospectively modified the interest rate and changed the method and timing of the interest calculation for deferred RAC balances, including the annual compounding of interest thereon. Pursuant to paragraphs 2(a) and 2(d) of the 2003 RAC Stipulation, the agreed-upon principal write-off, as well as the prospective modifications and changes to the interest rate and the interest calculation and annual compounding, were not to become effective until after receipt

of the Board's Final Order approving the 2003 RAC Stipulation and until after the 45-day period for appeal therefrom had passed.

4. On December 22, 2003, JCP&L made its above-captioned 2003 Annual RAC Filing in this Docket No. ER03121020, in order to provide the Board and the Parties with an opportunity to conduct an annual review of the reasonableness and prudence of all actual MGP costs and expenditures incurred by JCP&L from January 1, 2003 through December 31, 2003, in accordance with the 2003 RAC Stipulation. However, in light of the relatively modest size of the projected net deferred RAC account balance at December 31, 2003, JCP&L determined not to seek any adjustment to its RAC factor in this proceeding. Instead, the Parties agree that JCP&L will continue to defer such net deferred RAC balance at December 31, 2003, accruing interest at the rate and in the manner provided for in the 2003 RAC Stipulation and as modified herein, for inclusion, along with all additional reasonable and prudent MGP expenses incurred and deferred subsequent thereto, in future annual adjustments to the Company's RAC, subject to the Board's approval.

5. Recoverable Costs. Staff and the Ratepayer Advocate (and the latter's consultant) have conducted extensive discovery and have reviewed the Company's actual MGP costs and expenditures for the period from January 1, 2003 through December 31, 2003. Based upon Staff's and the Ratepayer Advocate's review and after a discovery conference and settlement negotiations among the Company, Staff and the Ratepayer Advocate, the Parties have agreed upon the following:

(a) The ending deferred RAC balance (including carrying costs) per JCP&L's books at December 31, 2003 (as adjusted by \$1,125 in January 2004 to correct an error in the December 2003 interest calculation) was a net unrecovered balance of \$5,765,342. In

accordance with generally accepted accounting principles ("GAAP") as applied by JCP&L's independent auditors, the deferred RAC balance at December 31, 2003 includes certain RAC expense accruals which may be subject to accounting adjustments in subsequent months when all vendor invoices have been received and the actual amounts thereof are finally ascertained. Although the Parties will continue to review the level of such accruals in the Company's deferred RAC accounts in future proceedings, the Parties do not object to the use of such accrual accounting procedures as required by the Company's auditors.

(b) Following receipt of the Board's Final Order dated May 17, 2004, approving the 2003 RAC Stipulation (the "Approval Order" as defined therein), JCP&L credited (wrote-off) the sum of Two Million Five Hundred Thousand Dollars (\$2,500,000) to the deferred RAC balance effective June 30, 2004, in accordance with paragraph 2(a) of the 2003 RAC Stipulation. As of August 1, 2004, the Company commenced the compounding of interest on the deferred RAC balance in accordance with the terms of paragraph 2(d) of the 2003 RAC Stipulation. These actions have been taken by the Company with the approval of the Parties, notwithstanding the fact that, at its July 7, 2004 agenda meeting, the Board granted (in part) JCP&L's motion for rehearing and reconsideration of the Final Order which, accordingly, remains non-final and the 45 day period for appeal therefrom has therefore not yet passed.

(c) Staff and the Ratepayer Advocate agree and recommend that the aforesaid JCP&L deferred RAC balance at December 31, 2003, subject to the write-off provided for in subparagraph (b) above, be approved by the Board for future recovery through Rider RAC of the Company's Tariff. The Parties further agree that the foregoing net deferred RAC balance amount shall not be incorporated or reflected in the Company's RAC recovery factor on June 1, 2004, but shall be further deferred and reflected in the future RAC recovery factor to become

effective on June 1, 2005, or at such later date as the Company shall hereafter stipulate and agree (and the Board shall approve) in a subsequent RAC proceeding.

6. Modifications to 2003 RAC Stipulation

(a) The Parties agree that paragraph 2(d) of the 2003 RAC Stipulation be modified and revised, on a prospective basis only, to provide that following the first compounding of interest on August 1, 2004 in accordance therewith, interest shall thereafter be compounded as of January 1 (instead of on August 1) of each year, commencing January 1, 2005, by adding the accrued interest from the prior 12-month period (or, in the case of the first such January 1 compounding, for the period from August 1, 2004, through December 31, 2004) to the principal balance on which interest is thereafter to be calculated.

(b) The Parties also agree that paragraph 2(d) of the 2003 RAC Stipulation be further modified and revised, again on a prospective basis only, to provide that following the resetting of the applicable interest rate on the deferred RAC balance as of August 1, 2004 in accordance therewith, the applicable interest rate shall thereafter be reset as of January 1 (instead of August 1) of each year, commencing January 1, 2005, at a rate equal to the rate on seven-year constant maturity Treasuries as shown in the Federal Reserve Statistical Release issued on or closest to January 1 of such year, plus 60 basis points.

(c) The Parties further agree that, notwithstanding the provisions of paragraph 2(d) of the 2003 RAC Stipulation, the calculation by JCP&L of monthly simple interest on the deferred RAC balance at the revised interest rate specified therein shall commence prospectively as of August 1, 2003, immediately upon issuance of the Board's Summary Order approving the 2003 RAC Stipulation, instead of waiting until after the Board's final Approval Order was issued and the appeal period therefrom had passed.

7. Resolution of All Issues. All Parties agree that the terms of this 2004 RAC Stipulation shall be deemed to resolve all factual and legal issues relating to the determination of all amounts that were or could have been included in the calculation of JCP&L's deferred RAC balance through and at December 31, 2003.

8. Entirety of 2004 RAC Stipulation. The Parties agree that this 2004 RAC Stipulation contains mutual balancing and interdependent clauses and is intended to be accepted and approved by the Board in its entirety. In the event any particular aspect of this 2004 RAC Stipulation is not accepted and approved in its entirety by the Board, then any Party aggrieved thereby shall not be bound to proceed with this 2004 RAC Stipulation and shall have the right, upon written notice to be provided to all other Parties within ten (10) days after receipt of any such adverse decision, to litigate all issues addressed herein to a conclusion. More particularly, in the event this 2004 RAC Stipulation is not adopted in its entirety by the Board in its Final Order in this matter, then any Party hereto is free, upon the timely provision of such written notice, to pursue its then available legal remedies with respect to all issues addressed in this 2004 RAC Stipulation, as though this 2004 RAC Stipulation has not been signed.

9. Binding Effect. The Parties agree that, upon its approval by the Board, this 2004 RAC Stipulation shall be binding on them for all purposes herein.

10. General Reservation. It is specifically understood and agreed that this 2004 RAC Stipulation represents a negotiated agreement and, except as otherwise expressly provided for herein:

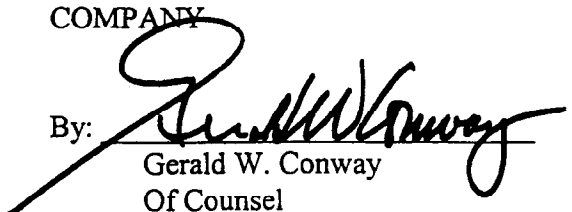
(a) By executing this 2004 RAC Stipulation, no Party waives any rights it possesses under any prior RAC Stipulation, except to the extent that the terms of this 2004 RAC Stipulation expressly modify, revise or supersede such prior RAC Stipulation.

(b) The contents of this 2004 RAC Stipulation shall not in any way be considered, cited or used by any of the undersigned Parties as an indication of any other Party's position on any related or other issue litigated in any other proceeding or forum, except to enforce the terms of this Stipulation.

WHEREFORE, the Parties hereto, intending thereby to be legally bound, have duly executed this 2004 RAC Stipulation, and do respectfully submit this 2004 RAC Stipulation to the Board and request that the Board issue a Final Decision and Order adopting and approving this 2004 RAC Stipulation in its entirety in accordance with the terms hereof.

THELEN REID & PRIEST LLP
ATTORNEYS FOR PETITIONER,
JERSEY CENTRAL POWER & LIGHT
COMPANY

By:


Gerald W. Conway
Of Counsel

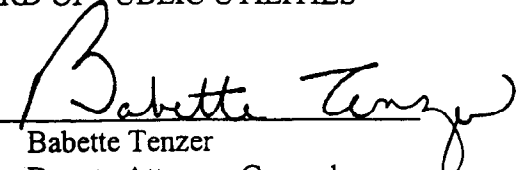
SEEMA M. SINGH, ESQ.
RATEPAYER ADVOCATE

By:


Judith Appel
Deputy Ratepayer Advocate

PETER C. HARVEY,
ATTORNEY GENERAL OF NEW JERSEY
ATTORNEY FOR STAFF OF THE
BOARD OF PUBLIC UTILITIES

By:

 9/19/04
Babette Tenzer
Deputy Attorney General
as of

Dated: September 10, 2004